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Agenda Item 3b

December 13, 2011

TO: MEMBERS OF THE FINANCE COMMITTEE

- I. **SUBJECT:** Office of Audit Services Quarterly Status Report
- II. **PROGRAM:** Audit Services
- III. **RECOMMENDATION:** Information Only
- IV. **ANALYSIS:**

In accordance with the Finance Committee's Audit Resolution Policy, the Office of Audit Services presents its Quarterly Status Report of audit activity. The following provides the status of projects and activities as of September 30, 2011.

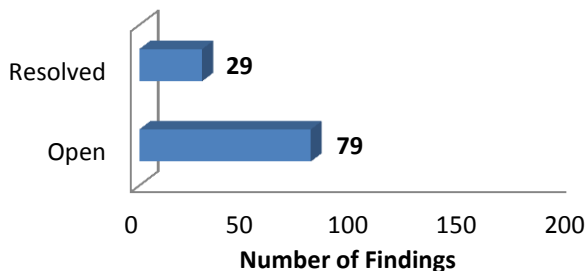
1. Public agency reviews

Public agency findings

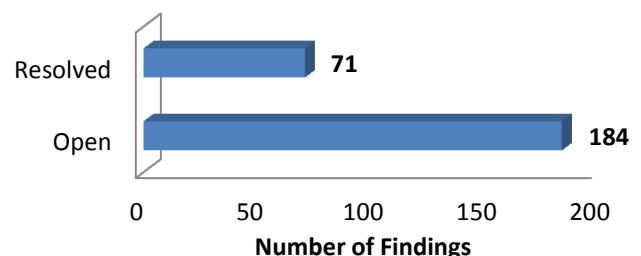
- During this first quarter, 15 public agency reviews were completed with a total of 108 findings. Attachment 1A provides the significant public agency review findings for this quarter. Detail on all findings is available on file in the Office of Audit Services, upon request.

The figures below provide the status of the public agency audit findings.

**Figure 1 - Current Year - Public Agency
(FY 2011/12)**

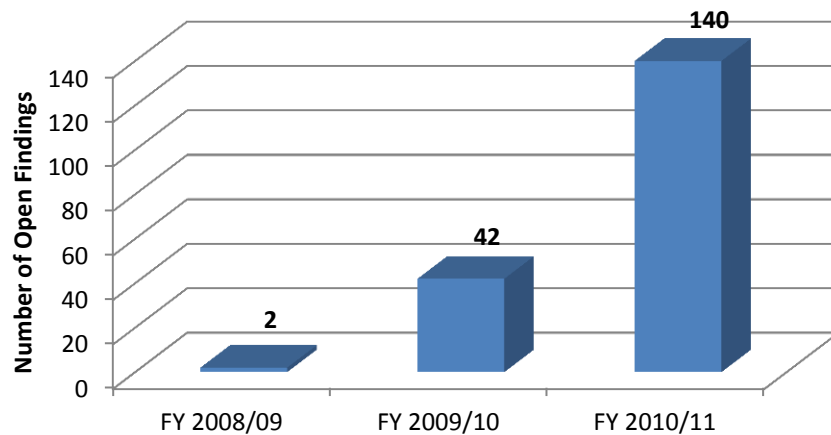


**Figure 2 - Prior Years - Public Agency
(FY 2007/08 - 2010/11)**



The following graph provides an aging summary of the public agency prior years' audit findings.

**Figure 3 - Aging of Prior Years Open Findings
Public Agency**



Public agency finding trends

- During the first quarter, 15 public agency reports were issued.
- More than 60 percent of the findings were related to compensation and membership issues. The figure and table below provide a summary of the types of findings.

**Figure 4 - Q1 FY 2011/12 - Public Agency
Types of Findings**

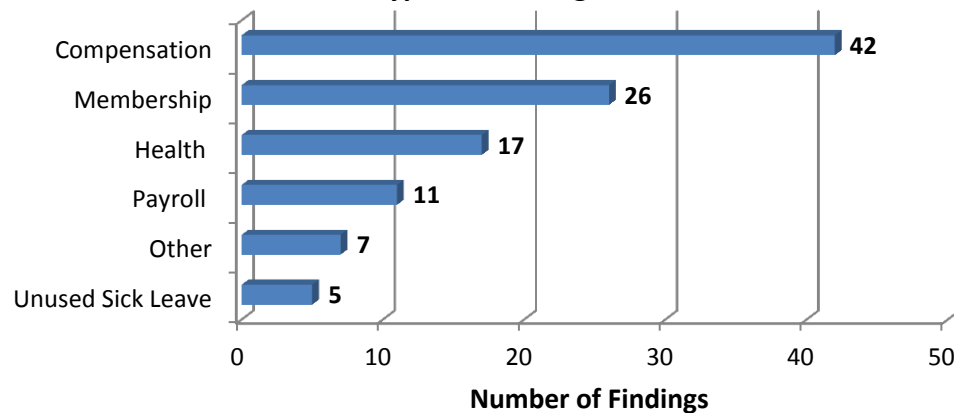


Table A – Summary of Public Agency Finding Types

Finding Type	Examples
Compensation	Compensation was not (uniform) or should not (overtime pay, extra duty pay) have been reported. Payrate exceeded salary schedule. Payrate not disclosed in a public document.
Membership	Part-time employees worked more than 1,000 hours in a fiscal year and not enrolled. Part-time employees with prior membership not enrolled. Retired annuitants worked more than 960 hours in a fiscal year.
Health	Health enrollment forms not on file. Documentation to support dependent eligibility not provided. Health contributions not remitted timely.
Payroll	Reported incorrect work schedule codes. Compensation not reported as earned. Payroll contributions not remitted timely.
Other	ACES required forms not on file. Reported incorrect coverage group. Industrial determination not made timely.
Unused Sick Leave	Unused Sick Leave not reported or over-reported.

2. Internal audits

Acceptance of risk

In accordance with the Audit Resolution Policy, for findings unresolved for one year, the executive of the audited division is required to accept the risk of not implementing corrective action and to provide a written explanation as to why acceptance of risk is the most appropriate disposition of the issue.

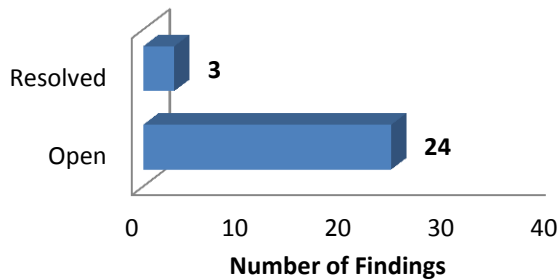
As of September 30, 2011, there are 14 findings that were unresolved after one year. Attachment 2A provides the detailed status. There were three acceptance of risks submitted this quarter and are currently under review. The Office of Audit will work with executive management to obtain resolution of the finding or acceptance of risk. The specific findings over one year will be reported until resolved by implementation of the recommendation or acceptance of risk.

Internal audit findings

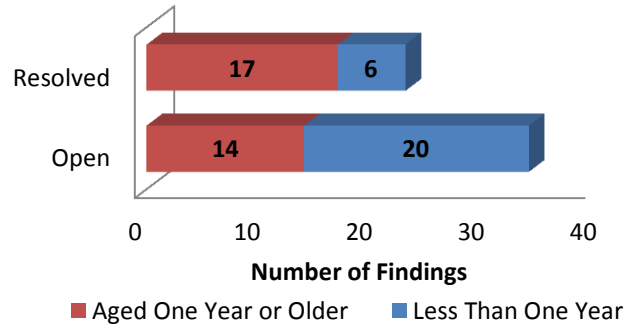
- During this first quarter, six internal audits were completed with a total of 27 findings. Attachment 3A provides the executive summary of the internal audits completed this quarter.

The figures below provide the status of internal audit findings.

**Figure 5 - Current Year - Internal
(FY 2011/12)**



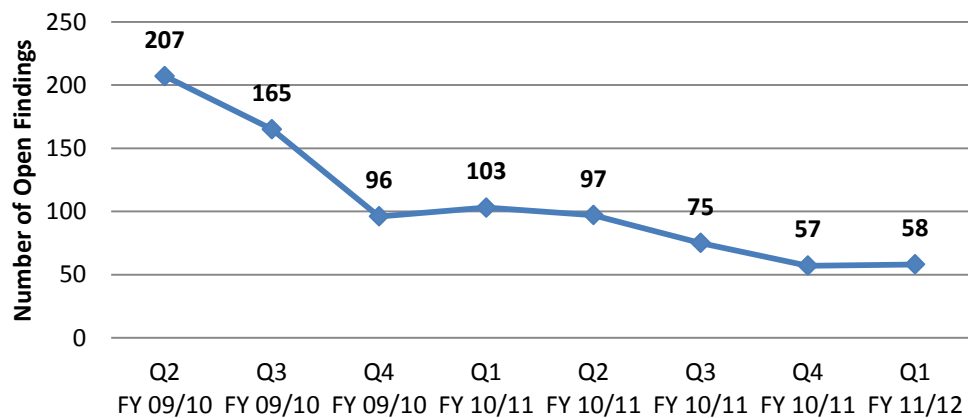
**Figure 6 - Prior Years - Internal
(FY 2004/05-2010/11)**



Internal audit finding trends

- Many findings have been resolved this quarter and the Office of Audit Services has seen a significant decrease in the number of open findings, as depicted in the figure below.

Figure 7 - Open Findings Comparison - Internal



- Approximately 60 percent of the findings were related to operational issues. The figure and table below provide a summary of the types of findings.

**Figure 8 - Q1 FY 2011/12 - Internal
Types of Findings**

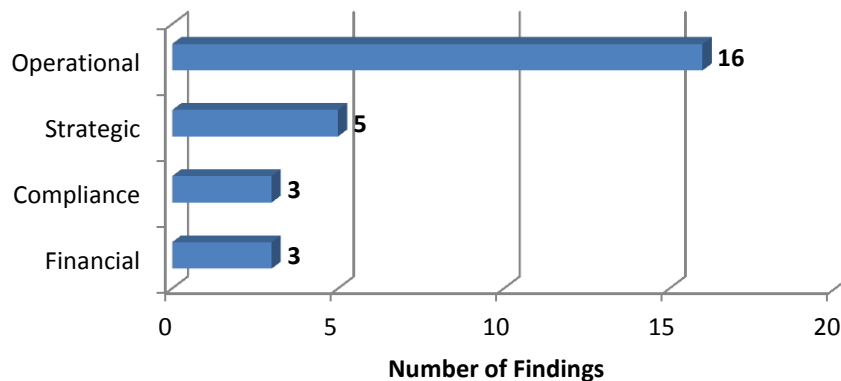


Table B – Summary of Internal Finding Types

Finding Type	Examples
Operational	A process to track and maintain a complete and accurate list of all business associate agreements did not exist. Language on the authorized wire transfer signature list did not specify the purpose and authorized amounts per transaction that staff may approve. Policies and procedures were incomplete or outdated.
Strategic	Regular training, testing, and exercise of division emergency action plans were not verified. A charter defining the objectives, authorities, responsibilities, and composition was absent. The strategic, annual planning, and risk management processes were not included in the procedure manuals.
Compliance	Eligibility determination was not made by the legally required party and those eligible were not notified timely. Contract language did not specify due dates for annual reports.
Financial	Monthly reconciliations exceeded two months. Program information incorporated into the financial section of CAFR lacked division chief approval. Financial reporting policy, including division roles and responsibilities regarding validation of information provided for financial reporting purposes, was absent.

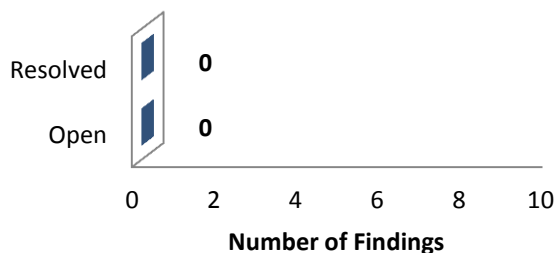
3. Financial statement audit

Financial statement audit findings

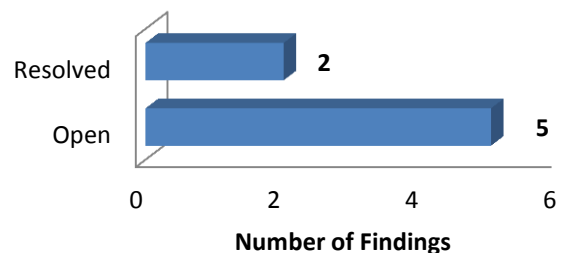
- At the request of the Finance Committee, we have included the status of prior year findings in Attachment 4A of this agenda item. The current year management letter comments will be presented at the March 2012 Risk and Audit Committee meeting.

The figures below provide the status of the financial statement audit findings.

**Figure 9 - Current Year- Financial Statement
(FY 2011/12)**



**Figure 10 - Prior Years - Financial Statement
(FY 2006/07 - 2009/10)**



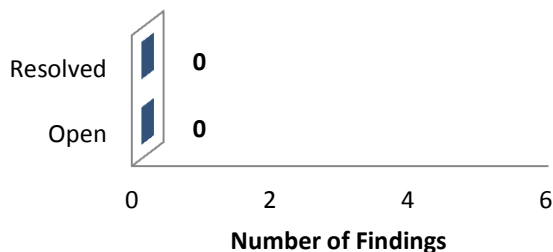
4. Real estate reviews

Real estate compliance reviews

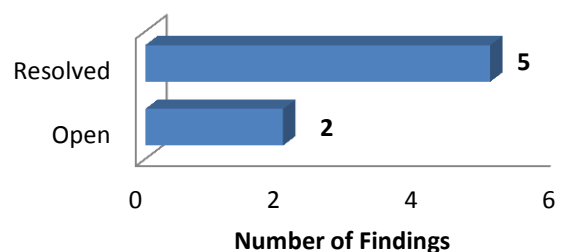
- During this first quarter, 12 real estate compliance reviews are in progress. There are no findings for this quarter.

The figures below provide the status of real estate compliance findings.

**Figure 11 - Current Year - Real Estate
(FY 2011/12)**



**Figure 12 - Prior Years - Real Estate
(FY 2008/09 - 2009/10)**



5. Status of projects

Table C – Summary of Activities

Type of Project	2009-10 Audit Plan	Projects In Progress	Projects Complete
Internal Audit, Consulting and Follow-Up (Attachment 5A)	65 ^A	30 ^A	6 ^A
Public Agency Reviews (Attachment 5B)	58 ^A	35 ^A	15 ^A
Financial Statement and Real Estate Contract Audits (Attachment 5C)	n/a	14 ^A	0

^A - Includes audits started in prior fiscal year as shown in the Attachments

Table C above provides a summary of the projects by categories.

- Internal audit projects and consulting assignments focus on compliance, and the effectiveness and efficiency of CalPERS operations, systems, policies, and procedures. Internal audit also includes audits of health maintenance organizations contracting with the System, compliance audits of health care third-party administrators, and audits of external providers of investment-related services.
- Public agency reviews include compliance reviews of employers belonging to the System.
- Financial statement and real estate audits are contract audits performed by external auditors.

V. STRATEGIC PLAN:

This item is not a specific product of the strategic plan, but is required by the Finance Committee's Audit Resolution Policy and the Office of Audit Services Charter.

VI. RESULTS/COSTS:

There is no additional cost for this specific agenda item.

MARGARET JUNKER, Chief
Office of Audit Services

PETER H. MIXON
General Counsel

Attachments